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NSC FOR JOSE CARDENAS, ROD HUNTER
PASS FED BOARD OF GOVERNORS FOR KROZNER, ROBITAILLE
PASS EXIM BANK FOR MICHELE WILKINS
PASS OPIC FOR JOHN SIMON, GEORGE SCHULTZ, RUTH ANN NICASTRI
USDOC FOR 4322/ITA/MAC/OLAC/PEACHER

E.O. 12958: N/A

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SUBJECT: FOREIGN BANKS SEE STRONG GROWTH OPPORTUNITIES IN ARGENTINA, BUT WEIGHED AGAINST AN UNPREDICTABLE OPERATING ENVIRONMENT

Summary

11. (SBU) Representatives of foreign banks operating in Argentina praised the GoA's prudent fiscal policy, predicted at least two more years of high growth, and discounted the possibility of an external shock-led crisis anytime soon, during an April 10 lunch for the Ambassador hosted by the Argentine Bankers Association. Nevertheless, they acknowledged that weak rule of law, inconsistent rules of the game, and unpredictable government intervention in the economy were deterrents to large-scale, long-term foreign investment. The consensus was that the GoA would continue with current policies after the October election, although several predicted that President Kirchner would tighten fiscal policy in 2008 after loosening the purse strings during the election year. End Summary.

Foreign Banks Brief on Argentine Financial Sector

12. (SBU) The Argentine Bank Association (ABA) hosted the Ambassador and Econoffs to lunch on April 10 to discuss the state of Argentina's financial sector, their views on opportunities and risks in the Argentine economy, and their predictions on the sustainability of GoA economic policies. Participants included ABA President Mario Vicens and Presidents/Directors of the Argentine branches of JP Morgan Chase Bank, American Express Bank, Citibank, Deutsche Bank, HSBC Bank, BNP Paribas, Standard Bank, Banco do Brasil, Banco Cetelem, BBVA Banco Frances, and Banco Rio de la Plata. (Note: Founded in 1999, ABA's 37 members and associates collectively employ over 20,000 and represent approximately 50% of Argentine banking sector assets, 55% of total deposits, and 49% of total loans. End Note).

Banks Happy with Two More Years of High Growth

13. (SBU) ABA President Vicens highlighted the positive developments in Argentina's economy and financial sector.

Banks (foreign and domestic) have expanded rapidly following the 2001/2002 financial crisis, mirroring the country's strong economic recovery. (Note: Following massive disintermediation in the wake of the crisis, total financial system assets increased 110% in nominal terms from 2001 to 2006. Deposits grew almost 160% and loans 34% during the same period. End Note). Vicens and others pres praised the GoA's macroeconomic performance as prudent and cautious, highlighting the importance of the primary fiscal and current account surpluses -- both evidence of the high savings rate in Argentina.

¶4. (SBU) Deutsche Bank's rep stated that, despite some longer-term uncertainties, he thought most local analysts were correct that the economy would continue growing at a high rate through 2007 and 2008. Revealing their short-term horizon, all present agreed that they would be happy if the GoA's policies gave them two more good years.

¶5. (SBU) For the longer term, JP Morgan's rep noted that he was unconcerned about external shocks, such as a fall in commodity prices, causing problems for the economy. However, JP Morgan was factoring political uncertainties into its risk analysis for the market, including the Kirchner government's growing ties to Chavez' Venezuela, tensions between Uruguay and Argentina, and the GoA's recent bellicose statements and actions with regards to the Malvinas (Falklands). Nevertheless, JP Morgan and others argued that Argentina was actually a safer bet for financial sector investments than many other emerging market countries, given that it had already gone through its default and another one was highly unlikely for the foreseeable future.

"Short Term Policies Equal Short Term Investments"

¶6. (SBU) Vicens acknowledged that uncertainties related to the GoA's interventionist tendencies, and willingness to change laws, impose new regulations and taxes, and general unpredictability, deterred investment and particularly large-scale investment in sectors requiring a longer term view (i.e., the energy sector). Others present noted that the private sector responded to the GoA's short term focus (on the October elections) with short term investments. There is a lot of interest in relatively high-yielding Argentine financial instruments, while investment in the real economy is primarily in areas such as tourism and construction, where quick turnaround is possible.

Post-Election Predictions

¶7. (SBU) Prompted by Ambassador's request for predictions for post-October elections, the general consensus was that either Nestor Kirchner or his wife Cristina would easily win the Presidency, and neither would make significant changes to current macro or micro policies. The most the JP Morgan rep expected was for the fiscally conservative Kirchner to slow down expenditures in 2008, after allowing spending to increase rapidly in the run-up to the elections (Note: Government expenditures are growing at a 40% pace so far in 2007, significantly faster than the also impressive growth in revenues of about 30%. End Note). Vicens, echoed by several others, also predicted that a Cristina Kirchner administration would have a stronger focus on foreign affairs and building Argentina's image abroad, but would not differ significantly from the current administration in other ways.

WAYNE